Balancing the Budget: Fitting It All In!

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Budgeting

• What is a budget?
  – Organized listing of income and expenses
  – A plan of where you are going to spend your money (aka: Spending Plan)

...telling your money where to go, instead of wondering where it went.
Budgeting

• Why budget?
  – To “make it” each month
  – To make sure I have money to pay what needs to be paid
  – To work towards goals
    • Like what?
      – Stay(ing) out of debt
      – Getting out of debt
      – Saving toward emergency fund
      – Retirement
      – Buy a nicer car
      – Decorate your home
      – The list goes on and on
Financial Goals

• Be specific
• Three levels:
  – short-term (to be accomplished within 1 year)
  – intermediate (1-5 years)
  – long-term (5 or more years).
• Do not list goals someone else (like mom, dad, uncle, friend) will be paying for, or goals for which you have already saved the money.
• Each goal should contain the following elements (an example of a long-term goal is also given):
  – Brief Goal Title (for example, Vacation Home)
  – Detailed Description – Describe in as much detail as is necessary (and reasonable) to identify exactly what you want.
    • Be specific in description; do not use vague words or expressions like “nice,” “comfortable,” “big/large,” “about,” “until the money runs out,” “upscale,” “luxurious,” etc.
    • For Example: 3 bedrooms, 2 bathrooms, 1500 square feet, fireplace, .25 acre lot, ocean view, no more than 75 miles from San Francisco
Goals, continued

- **Dollar Amount**: total amount needed by target date.
  - If you will be saving only a down payment, then list the total down payment and show the down payment as a percentage of the entire cost.
  - For Example: $112,500 Down payment (15% of $750,000)

- **Target Date** – Indicate a specific month and year.
  - For Example: November 2020

- **A few Saving Strategies** you might use to accumulate the necessary funds.
  - For Example: Obtain 2nd job. Take sack lunches to work instead of eating out each day.
Reasons Why We Don’t Budget

• #1 Don’t know how much to plan
• #2 Too many irregular, miscellaneous, unplanned expenses
• #3 Not enough money to cover expenses
• #4 Don’t know how to organize it
• #5 No money for me to spend—no fun!
Reasons Why We Don’t Budget

• Problem #1:
• Don’t know how much to plan

• Solutions:
  – Track
  – Keep good records
Tracking

• Have you ever asked yourself--
  – Where did all my money go??

• Tips for tracking:
  – Receipts
  – Pocket notebook
  – Bank and/or credit card statements
Purpose of Tracking

- Tracking shows:
  - where your money is going
  - how much you spend in specific areas
- Which can help you cut back in spending
  - categorizes expenses
Reasons Why We Don’t Budget

• Problem #2:
• Too many irregular, miscellaneous and unplanned expenses

• Solutions:
  – Keep good records
  – Revolving Savings
  – Emergency Fund
  – Adequate Insurance Coverage
  – Misc. fudge factor
Break Down of Expenses

This is the same for you and for me; all expenses will fall into one of these categories:

Regular:
- Constant
- Fluctuating

Irregular:
- Expected
- Unexpected
- Miscellaneous
- Emergency
How Does This Help?

**Regular**

This type of expenses you will have every month, so plan accordingly

- **Constant**
  ALWAYS the same

- **Fluctuating**
  Changing, like utility bills
  (could try to make constant)
How Does This Help?

Irregular

These expenses you will have every now and then

Expected
use revolving savings

Unexpected

Miscellaneous
Have a “misc” category

Emergency
emergency fund & proper insurance
Revolving Savings

• Fill it out
• Remember to include items such as:
  – Car registration
  – Insurance premiums (if you don’t pay insurance each month)
  – Birthdays/Christmas
  – Other special days (Mom’s day, Thanksgiving, anniversary)
  – Tuition & books
  – Possibly medical/dental/vision deductibles
  – Vacations
  – Hunting/skiing trips
  – Oil changes/maintenance
  – Magazine subscriptions
  – Anything else???
Reasons Why We Don’t Budget

• Problem #3: Not enough money to cover expenses

• Solutions:
  – Recognize you almost never have enough
  – Step Down Principle
A Word About Not Having Enough

• How you manage money is more important than how much you have

• "Your happiness doesn't hinge on how much you make. Your happiness hinges on how you handle it." Jean Chatzky, financial journalist

• *Millionaire Next Door* by Thomas J. Stanley & William D. Danko
Cutting Expenses: Step Down Principle

A simple, visual way to see your spending possibilities

The top step is most expensive, bottom step least expensive alternative.

Going to the Movies:

$6.50 New Release, Night Show

$4 New release, matinee

$2 Dollar theater

$1-4 Rental

Free Local library
Step By Step

- You don’t need to leap to the bottom all at once.

- Take it a step at a time and still save a few dollars each step, which eventually adds up.
Video— *Stop buying things you cannot afford*  

The Ultimate “Step Down”

Seems pretty simple…right?
Reasons Why We Don’t Budget

- Problem #4:
  - Don’t know how to organize it

- Solutions:
  - Budgeting Methods
Implementing a Budget

- **Checkbook method**
  - Write in checkbook register
  - List categories
  - Do you use a checkbook regularly?

- **Paper and pen**
  - Draw lines and categories
  - No crazy computer problems
More ways to implement

- **Cash/Envelope Method**
  - Envelopes for different categories
  - Spend a lot when you have credit/debit cards?

- **Computer Program**
  - Quicken
  - Microsoft Money
  - Excel
  - Download another

- **Combination**
Example of Monthly & Weekly Budget

- See spreadsheet handouts
Automatic Deductions & Bill Pay

Less mess and worry for you

– House Payment
– Insurance
– Savings/Investments
– Credit card payments
– Cell phone
Reasons Why We Don’t Budget

• Problem #5:
• No money for me to spend—not fun!

• Solution:
  – Personal spending money
Spending Money

- Be realistic
- Can help control spending
- Gives family members sense of responsibility and choice
- Makes budgeting not so bad
- Give it a try
Spending & Goals

• Says David L. Scott, Professor of Accounting, Valdosta State University:

  “Too many people don’t connect their current spending with achieving many of the goals they’ve set for themselves.”

• “A budget can lead to a much happier life because it helps individuals spend their money more wisely:

• “This in turn allows them to achieve their most important goals”

• Purpose of budget: goals!
• Build spending around goals, and goals around spending
Solutions to the Budgeting Woes

• Track

• Plan
  – Emergencies
  – Adequate insurance coverage
  – Revolving/special expenses

• Cut Expenses when needed—remember to focus on goals

• Use a budget method that works for you—and evaluate

• Give yourself spending money
Remember—
Budgeting is telling your money where to go;
not wondering where it went.